

July 31, 2008

INDEX

	DIRECT RE-DIRECT	CROSS/ RE-CROSS	EXAM. BY BOARD/STAFF
1. John Herlihy	23-34	---	34-38

*JHE*  
*8/28/08*

July 31, 2008

EXHIBITS

<u>EXHIBIT NO. (ITEM NO.)</u>	<u>TITLE (TESTIMONY OF)</u>	<u>OFFERED</u>	<u>RECEIVED</u>
Board Exhibit	Hearing Officer Report	21	21
Exhibit 1A (Item 8)	Affidavit of testimony with attachments (John D. Herlihy)	22	22
Exhibit 1A (Item 9)	Affidavit of testimony with attachment (John D. Herlihy)	22	22
Exhibit 1A (Item 10)	Affidavit of testimony with attachment (John D. Herlihy)	22	22
Exhibit 1A (Item 11)	Affidavit of testimony with attachments (John D. Herlihy)	22	22
Exhibit 1 (Item 11)	Base map of West Foshee Field (John D. Herlihy)	33	33
Exhibit 2 (Item 11)	Comparison of cost to convert a well vs. refitting a well (John D. Herlihy)	33	33
Exhibit 3 (Item 11)	Chart of cost to convert the ATIC 33-3 #1 Well to SWD and purchase all equipment (John D. Herlihy)	33	33
Exhibit 4 (Item 11)	Decline curve analysis for the ATIC Container 33-3 #1 (John D. Herlihy)	33	33

July 31, 2008

EXHIBITS

<u>EXHIBIT NO. (ITEM NO.)</u>	<u>TITLE (TESTIMONY OF)</u>	<u>OFFERED</u>	<u>RECEIVED</u>
Exhibit 5 (Item 11)	Chart of cost to convert ATIC 33-7 #1 Well to SWD and purchase all equipment (John D. Herlihy)	33	33
Exhibit 6 (Item 11)	Decline curve analysis for the ATIC 33-7 #3 (John D. Herlihy)	33	33
Exhibit 7 (Item 11)	Chart of economic analysis for the ATIC Container 33-3 #1 (John Herlihy)	33	33
Exhibit 8 (Item 11)	Chart of economic analysis for the ATIC 33-7 #3 (John Herlihy)	33	33

STATE OIL AND GAS BOARD OF ALABAMA

Tuscaloosa, Alabama

July 31, 2008

Testimony and proceedings before a Hearing Officer in Regular Session in the Board Room of the State Oil and Gas Board Building, University of Alabama Campus, Tuscaloosa, Alabama, pursuant to adjournment, on this the 31<sup>st</sup> day of July, 2008.

BEFORE

Mr. Charles E. Pearson .....Member

STAFF

Mr. Marvin Rogers..... Attorney

Mr. Berry H. (Nick) Tew, Jr. .... Secretary and Supervisor

Mr. Jay H. Masingill ..... Assistant Supervisor

Mr. Richard Raymond..... Assistant Supervisor

Mr. Kirk McQuillan ..... Geologist

Mr. Butch Gregory ..... Engineer

July 31, 2008

APPEARANCES

1  
2  
3  
4  
5  
6  
7  
8  
9

	NAME	REPRESENTING
1.	Mark Scogin Tuscaloosa, AL	Durango Operating, LLC
2.	John Herlihy Jackson, MS	Durango Operating, LLC

July 31, 2008

1 (The hearing was convened at 10:00 a.m. on  
2 Thursday, July 31, 2008, at Tuscaloosa, Alabama.)  
3  
4

5 MR. PEARSON: Let the record reflect that the State Oil and Gas Board is now in  
6 session. This session is going to be conducted as a Hearing Officer proceeding. I'm Ward  
7 Pearson, a current member of the Board. I have been directed by the Oil and Gas Board to act as  
8 Hearing Officer in these proceedings. Mr. Rogers, has notice of this meeting been properly  
9 advertised?

10 MR. ROGERS: Yes sir.

11 DR. TEW: Mr. Pearson, the staff has prepared a docket for today's hearing.  
12

13 AGENDA  
14 STATE OIL AND GAS BOARD OF ALABAMA  
15 BOARD MEETING  
16 JULY 29 & 31, 2008  
17

18 The State Oil and Gas Board of Alabama will hold its regular hearing at  
19 10:00 a.m. on Tuesday, July 29, 2008, and Thursday, July 31, 2008, in the  
20 Board Room of the State Oil and Gas Board, Walter B. Jones Hall,  
21 University of Alabama Campus, 420 Hackberry Lane, Tuscaloosa,  
22 Alabama, to consider the following items:  
23

24 1. DOCKET NO. 3-12-08-5

25 Continued petition by WHITE TAIL EXPLORATION, L.L.C., an Alabama  
26 limited liability company, requesting the State Oil and Gas Board to enter an  
27 order extending the temporarily abandoned status for the William Smith 9-2  
28 #1 Well, Permit No. 12180, located on a 40-acre wildcat drilling unit  
29 consisting of West Half of the Northwest Quarter of the Northeast Quarter  
30 and the East Half of the Northeast Quarter of the Northwest Quarter of  
31 Section 9, Township 23 North, Range 14 East, Chilton County, Alabama, in  
32 accordance with Rule 400-1-4-.17(1) of the State Oil and Gas Board of  
33 Alabama Administrative Code.

1 2. DOCKET NO. 3-12-08-14

2 Continued petition by SAGA PETROLEUM LIMITED LIABILITY  
3 COMPANY OF COLORADO, a Colorado limited liability company,  
4 authorized to do and doing business in the State of Alabama, requesting  
5 the State Oil and Gas Board to enter an order reforming the unit for the  
6 CLC 24-5-18, Permit No. 11864-C, from an 80-acre unit consisting of the  
7 West Half of the Northwest Quarter of Section 24, Township 19 South,  
8 Range 9 West, Tuscaloosa County, Alabama in the Deerlick Creek Coal  
9 Degasification Field, to an 40-acre unit consisting of the Southwest  
10 Quarter of the Northwest Quarter of Section 24, Township 19 South,  
11 Range 9 West, Tuscaloosa County, Alabama, in the Deerlick Creek Coal  
12 Degasification Field. Although Petitioner requests the Board to eliminate  
13 certain lands from the present spacing unit, Petitioner proposes to drill  
14 another coalbed methane well in the lands proposed to be eliminated from  
15 the current unit by formation of an additional 40 acre unit comprised of  
16 the Northwest Quarter of the Northwest Quarter of said Section 24,  
17 Township 19 South, Range 9 West, Tuscaloosa County, Alabama.

18  
19 3. DOCKET NO. 3-12-08-16

20 Continued petition by SAGA PETROLEUM LIMITED LIABILITY  
21 COMPANY OF COLORADO, a Colorado limited liability company,  
22 authorized to do and doing business in the State of Alabama, requesting  
23 the State Oil and Gas Board to enter an order reforming the unit for the  
24 RGGG 30-16-59, Permit No. 13953-C, from an 80-acre unit consisting of  
25 the East Half of the Southeast Quarter of Section 30, Township 19 South,  
26 Range 5 West, Jefferson County, Alabama in the Oak Grove Coal  
27 Degasification Field, to an 40-acre unit consisting of the Southeast Quarter  
28 of the Southeast Quarter of Section 30, Township 19 South, Range 5  
29 West, Jefferson County, Alabama, in the Oak Grove Coal Degasification  
30 Field. Although Petitioner requests the Board to eliminate certain lands  
31 from the present spacing unit, Petitioner proposes to drill another coalbed  
32 methane well in the lands proposed to be eliminated from the current unit  
33 by formation of an additional 40 acre unit comprised of the Northeast  
34 Quarter of the Southeast Quarter of said Section 30, Township 19 South,  
35 Range 5 West, Jefferson County, Alabama.

36  
37 4. DOCKET NO. 4-14-08-7A

38 Continued amended petition by LAND AND NATURAL RESOURCE  
39 DEVELOPMENT, INC., an Alabama corporation, requesting the State Oil  
40 and Gas Board to enter an order approving an exception to Rule 3(b) of  
41 the Special Field Rules for the Coal Fire Creek Field, Pickens County,

1 Alabama, for the exceptional location of the Cunningham 16-12 #2 Well,  
2 Permit No. 5881. Petitioner proposes to re-enter and complete said well on  
3 a 320-acre unit consisting of the West Half of Section 16, Township 18  
4 South, Range 14 West, Pickens County, Alabama, at a location 2,300 feet  
5 from the South line and 330 feet from the West line of said Section 16.  
6 Said Rule 3(b) requires that wells drilled in said Field be located at least  
7 660 feet from every exterior boundary of the drilling unit, and the  
8 proposed location of the referenced well is only 330 feet from the West  
9 line of the 320-acre drilling unit for said well.

10  
11 In the proposed re-entry, Petitioner desires to test the Benton Sand Gas  
12 Pool as defined in the Special Field Rules for the Coal Fire Creek Field  
13 and also test the Tuscumbia and Millerella Sands. Excluded from the re-  
14 entry tests are the Carter, Lewis and Fayette Sand Gas Pools. There are  
15 two producing wells in the said West Half of Section 16, one producing  
16 from the Lewis Sand Gas Pool and another producing from the Fayette  
17 Sand Gas Pool with one well in the Carter Sand Gas pool that is no longer  
18 producing.

19  
20 5. DOCKET NO. 5-12-08-3

21 Continued petition by GEOMET, INC., a Delaware corporation,  
22 requesting the State Oil and Gas Board to enter an order approving a 160-  
23 acre wildcat drilling unit consisting of the Southwest Quarter of Section 5,  
24 Township 12 South, Range 3 West, Cullman County, Alabama, for the  
25 drilling of a horizontal well, in accordance with Rule 400-1-2-.02(2)(b) of  
26 the State Oil and Gas Board of Alabama Administrative Code which  
27 provides that a well may be drilled on a drilling unit consisting of a  
28 governmental quarter section containing approximately 160 acres.

29  
30 This petition is filed as a companion to a petition bearing Docket No. 5-  
31 12-08-4 requesting approval of an exceptional location for the referenced  
32 horizontal well on the proposed 160-acre wildcat drilling unit and a  
33 petition bearing Docket No. 5-12-08-5 requesting an exception to Rule  
34 400-1-4-.09(2)(c) pertaining to the setting and cementing of production  
35 casing.

36  
37 6. DOCKET NO. 5-12-08-4

38 Continued petition by GEOMET INC., a Delaware corporation,  
39 requesting the State Oil and Gas Board to enter an order approving an  
40 exceptional location for a horizontal well to be drilled on a 160-acre  
41 wildcat drilling unit consisting of the Southwest Quarter of Section 5,

1 Township 12 South, Range 3 West, Cullman County, Alabama, at a  
2 location no closer than 330 feet from every exterior boundary of the 160-  
3 acre wildcat drilling unit, as an exception to Rule 400-1-2-.02(2)(b) of the  
4 State Oil and Gas Board of Alabama Administrative Code which requires  
5 that wells be drilled at least 660 feet from every exterior boundary of the  
6 drilling unit. Petitioner proposes to drill a vertical well into the  
7 Chattanooga Shale, evaluate the formation, and drill horizontally in the  
8 Chattanooga Shale such that the horizontal well will be no closer than 330  
9 feet from every exterior boundary of the drilling unit, and, as such, will be  
10 an exception to said Rule.  
11

12 The petition is filed as a companion to a petition bearing Docket No. 5-12-  
13 08-3 requesting approval of a 160-acre wildcat drilling unit and a petition  
14 bearing Docket No. 5-12-08-5 requesting an exception to Rule 400-1-4-  
15 .09(2)(c) pertaining to the setting and cementing of production casing.  
16

17 7. DOCKET NO. 5-12-08-5

18 Continued petition by GEOMET, INC., a Delaware corporation,  
19 requesting the State Oil and Gas Board to enter an order approving an  
20 exception to Rule 400-1-4-.09(2)(c) of the State Oil and Gas Board of  
21 Alabama Administrative Code pertaining to the requirements for setting  
22 and cementing production casing for a well to be drilled horizontally on a  
23 160-acre wildcat drilling unit consisting of the Southwest Quarter of  
24 Section 5, Township 12 South, Range 3 West, Cullman County, Alabama.  
25

26 This petition is filed as a companion to a petition bearing Docket No. 5-  
27 12-08-3 requesting approval of the above-described 160-acre wildcat  
28 drilling unit and a petition bearing Docket No. 5-12-08-4 requesting  
29 approval of an exceptional location for a well to be drilled horizontally on  
30 the proposed 160-acre wildcat drilling unit.  
31

32 8. DOCKET NO. 5-12-08-13

33 Continued petition by DURANGO OPERATING, LLC, a Mississippi  
34 limited liability company, authorized to do business in the State of  
35 Alabama, requesting the State Oil and Gas Board to enter an order  
36 classifying the following wells all located in the Foshee Field, Escambia  
37 County, Alabama, as temporarily abandoned for a period of one (1) year:

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<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
5213	A.T.I.C. 34-9 #1	S34, T2N-R8E
5335	Culpepper 34-7 #1	S34, T2N-R8E
5167	A.T.I.C. 35-13 #2	S35, T2N-R8E
5062-A	A.T.I.C. 35-14 #1	S35, T2N-R8E

Said wells are temporarily abandoned. Petitioner is requesting the Board to classify said wells as temporarily abandoned for a period of one (1) year in accordance with Rule 400-1-4-.17 of the State Oil and Gas Board of Alabama Administrative Code because all of the wells have future utility in Durango Operating, LLC's operations in Foshee Field, Escambia County, Alabama and should not be plugged.

9. DOCKET NO. . 5-12-08-14

Continued petition by DURANGO OPERATING, LLC, a Mississippi limited liability company, authorized to do business in the State of Alabama, requesting the State Oil and Gas Board to enter an order classifying the Cedar Creek Land and Timber Co. 12-9 #1, Permit # 8685, located in Section 12, Township 1 North, Range 8 East in Osaka Field, Escambia County, Alabama, as temporarily abandoned for a period of one (1) year:

Said well is temporarily abandoned. Petitioner is requesting the Board to classify said well as temporarily abandoned for a period of one (1) year in accordance with Rule 400-1-4-.17 of the State Oil and Gas Board of Alabama Administrative Code because said well has future utility in Durango Operating, LLC's operations in Osaka Field, Escambia County, Alabama and should not be plugged.

10. DOCKET NO. 5-12-08-15

Continued petition by DURANGO OPERATING, LLC, a Mississippi limited liability company, authorized to do business in the State of Alabama, requesting the State Oil and Gas Board to enter an order classifying the R. E. Loper et al 12-11 #1, Permit # 2885, located in Section 12, Township 1 North, Range 8 East in Pollard Field, Escambia County, Alabama, as temporarily abandoned for a period of one (1) year:

Said well is temporarily abandoned. Petitioner is requesting the Board to classify said well as temporarily abandoned for a period of one (1) year in accordance with Rule 400-1-4-.17 of the State Oil and Gas Board of Alabama Administrative Code because said well has future utility in

1 Durango Operating, LLC's operations in Pollard Field, Escambia County,  
2 Alabama and should not be plugged.  
3

4 11. DOCKET NO. 5-12-08-16

5 Continued petition by DURANGO OPERATING, LLC, a Mississippi  
6 limited liability company, authorized to do business in the State of  
7 Alabama, requesting the State Oil and Gas Board to enter an order  
8 classifying the following wells all located in West Foshee Field, Escambia  
9 County, Alabama, as temporarily abandoned for a period of one (1) year:

<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
5475	A.T.I.C. 33-7 #3	S33, T2N-R8E
5359	A.T.I.C. 33-8 #1	S33, T2N-R8E
5528	A.T.I.C. Container 33-3 #1	S33, T2N-R8E

17 Said wells are temporarily abandoned. Petitioner is requesting the Board  
18 to classify said wells as temporarily abandoned for a period of one (1) year  
19 in accordance with Rule 400- 1-4-.17 of the State Oil and Gas Board of  
20 Alabama Administrative Code because all of the wells have future utility  
21 in Durango Operating, LLC's operations in West Foshee Field, Escambia  
22 County, Alabama  
23

24 12. DOCKET NO. 6-16-08-6

25 Continued petition by SHELL OFFSHORE INC. ("Shell") a corporation  
26 authorized to do and doing business in the State of Alabama and Devon  
27 Energy Production Company, L.P. ("Devon"), an Oklahoma limited  
28 partnership, requesting the State Oil and Gas Board to grant approval of  
29 the commingling of State and federal natural gas streams. Devon is the  
30 operator of Mobile Area Block 826 OCS G-26176 Well Number 001,  
31 from which federal gas resources will be commingled with State gas  
32 resources originating from Shell's Fairway Field, Mobile County,  
33 Alabama. The point the commingling will occur will be the Mobile Bay  
34 Platform 113A, downstream of Shell's Fairway Field gas allocation meter.  
35 Petitioners aver that the processing of the federal gas resources will not  
36 change or affect Shell's current State allocation and reporting  
37 methodology. The jurisdiction and authority of the Oil and Gas Board is  
38 provided in Section 9-17-1, et seq., Code of Alabama (1975) as amended.

1 13. DOCKET NO. 6-16-08-16B

2 Continued amended petition by BENJAMIN V. COODY, d/b/a Pete's  
3 Pumping Service, requesting the State Oil and Gas Board to enter an order  
4 force pooling, without the imposition of a risk compensation penalty, all  
5 tracts and interests in hydrocarbons produced from the Eula Jones #1  
6 Well, Permit No. 1288, located on a 40-acre unit consisting of the  
7 Northeast Quarter of the Southwest Quarter of Section 2, Township 10  
8 North, Range 3 West, Choctaw County, Alabama, in the Gilbertown Oil  
9 Field.

10  
11 This Petition is in accordance with Section 9-17-13, Code of Alabama  
12 (1975), as amended, and Rule 400-7-2-.01 of the State Oil and Gas Board  
13 of Alabama Administrative Code.

14  
15 The public is further advised that, pursuant to this hearing, the applicable  
16 provision of the Code of Alabama (1975), and the State Oil and Gas Board  
17 of Alabama Administrative Code, the Board will enter such Order or  
18 Orders as in its judgment may be necessary in accordance with the  
19 evidence submitted and accepted.

20  
21 14. DOCKET NO. 6-16-08-18

22 Continued petition by EL PASO E & P COMPANY, L.P., a Delaware  
23 limited partnership, authorized to do and doing business in the State of  
24 Alabama, requesting the State Oil & Gas Board of Alabama to enter an  
25 order force pooling with risk compensation, all tracts and interests in  
26 coalbed methane produced from the Pottsville formation in an 80 acre  
27 drilling unit for the proposed Lee 26-03-197 Well, having a unit consisting  
28 of all of the East Half of the Northwest Quarter, Section 26, Township 18  
29 South, Range 10 West, Tuscaloosa County, Alabama, in the Blue Creek  
30 Coal Degasification Field. This petition is in accordance with Section  
31 9-17-13, ALABAMA CODE (1975), as amended, and Rules 400-7-1 and  
32 400-7-2 of the State Oil and Gas Board of Alabama Administrative Code.

33  
34 15. DOCKET NO. 7-29-08-1

35 Petition by HIGHMOUNT BLACK WARRIOR BASIN LLC, a foreign  
36 limited liability company, authorized to do and doing business in the State  
37 of Alabama, requesting the State Oil and Gas Board to enter an order force  
38 pooling, with a risk compensation penalty, all tracts and interests in  
39 hydrocarbons produced from coalbeds in the Pottsville Formation in the  
40 Braughton 32-15-1159 Well to be drilled on a 40-acre unit consisting of the  
41 Southwest Quarter of the Southeast Quarter of Section 32, Township 18

1 South, Range 10 West, Tuscaloosa County, Alabama, in the Blue Creek  
2 Coal Degasification Field.

3  
4 This Petition is in accordance with Section 9-17-13, Code of Alabama  
5 (1975), as amended, and Rule 400-7-2-.01 of the State Oil and Gas Board of  
6 Alabama Administrative Code.

7  
8 16. DOCKET NO. 7-29-08-2

9 Petition by GEOMET, INC., a Delaware corporation, authorized to do and  
10 doing business in the State of Alabama, requesting the State Oil and Gas  
11 Board to enter an order approving an exception to Rule 400-1-4-.09(2)(c)  
12 of the State Oil and Gas Board of Alabama Administrative Code  
13 pertaining to the requirements for setting and cementing production casing  
14 for the Brittian 20-06-06 Well to be drilled horizontally on a 160-acre  
15 wildcat drilling unit consisting of the Northwest Quarter of Section 20,  
16 Township 12 South, Range 1 East, Blount County, Alabama.

17  
18 This petition is filed as a companion to a petition bearing Docket No. 7-  
19 29-08-3 requesting approval of the above-described 160-acre wildcat  
20 drilling unit for the referenced well and a petition bearing Docket No. 7-  
21 29-08-13 requesting approval of an exceptional location for the referenced  
22 horizontal well on the proposed 320-acre wildcat drilling unit.

23  
24 17. DOCKET NO. 7-29-08-3

25 Petition by GEOMET, INC., a Delaware corporation, authorized to do and  
26 doing business in the State of Alabama, requesting the State Oil and Gas  
27 Board to enter an order approving a 160-acre wildcat drilling unit  
28 consisting of the Northwest Quarter of Section 20, Township 12 South,  
29 Range 1 East, Blount County, Alabama, for the drilling of a horizontal  
30 well, namely the Brittian 20-06-06 Well, in accordance with Rule 400-1-2-  
31 .02(2)(b) of the State Oil and Gas Board of Alabama Administrative Code  
32 which provides that a well may be drilled on a drilling unit consisting of a  
33 governmental quarter section containing approximately 160 acres.

34  
35 Petitioner permitted the Moon 20-05-06 Well, Permit No. 15678-BH, on the  
36 above-described 160-acre unit, but intends to cancel said permit.

37  
38 This petition is filed as a companion to a petition bearing Docket No. 7-  
39 29-08-2 requesting an exception to Rule 400-1-4-.09(2)(c) pertaining to  
40 the setting and cementing of production casing and a petition bearing  
41 Docket No. 7-29-08-13 requesting approval of an exceptional location for

1 the referenced horizontal well on the proposed 320-acre wildcat drilling  
2 unit.  
3

4 18. DOCKET NO. 7-29-08-4

5 Petition by SUNDOWN ENERGY, L.P., a foreign limited partnership  
6 authorized to do and doing business in the State of Alabama, requesting  
7 the State Oil and Gas Board to enter an order approving exceptions to  
8 Rule 400-1-6-.01 of the State Oil and Gas Board of Alabama  
9 Administrative Code and Rule 4 of the Special Field Rules for the  
10 Kennedy Field, Lamar County, Alabama, for an alternate casing program  
11 producing the well through tubing without a packer for the re-entry of the  
12 Cooper 4-14 #1 Well, Permit No. 4133-A, located on a 320-acre unit  
13 consisting of the South Half of Section 4, Township 17 South, Range 14  
14 West, Lamar County, Alabama. Petitioner proposes to run 2 7/8-inch  
15 tubing in the hole without a packer and complete in the Lewis Sand Gas  
16 Pool. Rule 400-1-6-.01 requires that all wells be produced through tubing  
17 anchored by a packer and Rule 4 requires production casing to be set  
18 through the producing reservoir and Petitioner avers that the 2 7/8-inch  
19 tubing it proposes to use in the well as "casing" is a sound engineering  
20 procedure that will promote orderly development, prevent waste and  
21 protect groundwater resources.  
22

23 19. DOCKET NO. 7-29-08-5

24 Petition by PALMER PETROLEUM, INC., a foreign corporation  
25 authorized to do and doing business in the State of Alabama, requesting  
26 the State Oil and Gas Board to enter an order establishing a new oil field  
27 to be known as the Fall Creek Field, or by such other name as the Board  
28 deems appropriate and to adopt Special Field Rules therefor. The proposed  
29 field, as underlain by the Smackover Oil Pool, consists of the Southwest  
30 Quarter of Section 13, Township 4 North, Range 14 East, Covington  
31 County, Alabama.  
32

33 The Smackover Oil Pool in the proposed Fall Creek Field should be defined  
34 as those strata productive of hydrocarbons in the interval between 10,795  
35 feet measured depth and 10,934 feet measured depth in the Longleaf Ltd 13-  
36 14 #1 Well, Permit No. 15190, located on a 160-acre unit consisting of the  
37 Southwest Quarter of Section 13, Township 4 North, Range 14 East,  
38 Covington County, Alabama, in the proposed Fall Creek Field, as indicated  
39 on the Dual Induction Log of the said well.

1           Petitioner is requesting well spacing of a governmental quarter section  
2           containing approximately one hundred sixty (160) contiguous surface acres,  
3           and is also requesting the establishment of allowables for wells in said field.  
4

5           Petitioner further requests that the 160-acre unit consisting of the Southwest  
6           Quarter of Section 13, Township 4 North, Range 14 East, Covington  
7           County, Alabama, be approved as the permanent production unit for the  
8           Longleaf Ltd 13-14 #1 Well, Permit No. 15190.  
9

10          20. DOCKET NO. 7-29-08-6

11          Petition by BLACK WARRIOR METHANE CORP., an Alabama  
12          corporation, requesting the State Oil and Gas Board to enter an order  
13          approving an exceptional location for the Watts 05-04-549 gob well to be  
14          drilled 91 feet from the North line and 829 feet from the West line of  
15          Section 5, Township 20 South, Range 6 West, Tuscaloosa County,  
16          Alabama, in Unit IV of the Brookwood Coal Degasification Field, as an  
17          exception to Rule 19A of the Special Field Rules for said Field. Said Rule  
18          requires that wells be drilled at least 150 feet from every exterior boundary  
19          of a Unit Area and at least 300 feet from every exterior boundary of the  
20          field limits. The proposed location for the referenced well is 91 feet from  
21          the north boundary of Unit IV of the Brookwood Coal Degasification  
22          Field and also 91 feet from the exterior boundary of said Field, and as  
23          such, is an exception to said Rule 19A.  
24

25          21. DOCKET NO. 7-29-08-7

26          Petition by FOUR STAR OIL & GAS COMPANY, a subsidiary of Chevron  
27          U.S.A. Inc., a foreign corporation authorized to do and doing business in the  
28          State of Alabama, requesting the State Oil and Gas Board to enter an order  
29          granting an extension of the requirement contained in Board Order No.  
30          2007-115, issued on August 3, 2007, that by July 2008 Petitioner commence  
31          operations to sidetrack the Hatter's Pond Unit 34-10 #1 ST Well, Permit No.  
32          2735-B-GI-93-1, located in Section 34, Township 1 South, Range 1 West,  
33          Mobile County, Alabama, in the Hatter's Pond Unit, to establish production  
34          or commence operations to plug and abandon the well. Since the issuance of  
35          Board Order No. 2007-115, the UIC Permit for the well has been cancelled  
36          and assigned Permit No. 2735-B.  
37

38          Petitioner avers that it had delays with reservoir modeling which have  
39          recently been resolved and, due to the delays, needs additional time to  
40          evaluate the future utility of said well. Therefore, Petitioner requests an  
41          additional six-month extension of the temporarily abandoned status for said

1 well in accordance with Rule 400-1-4-.17(1) of the State Oil and Gas Board  
2 of Alabama Administrative Code.

3  
4 22. DOCKET NO. 7-29-08-8

5 Petition by SOUTH CARLTON OPERATING COMPANY, LLC, a  
6 foreign limited liability company, authorized to do and doing business in  
7 the State of Alabama, requesting the State Oil and Gas Board to enter an  
8 order amending Rule 2 of the Special Field Rules for the South Carlton  
9 Field, Clarke and Baldwin Counties, Alabama, to define the Eutaw  
10 Formation and Upper Tuscaloosa as a single oil pool to be known as the  
11 "Eutaw-Upper Tuscaloosa Sand Oil Pool" and to add said oil pool to the  
12 field. The Eutaw-Upper Tuscaloosa Sand Oil Pool consists of those strata  
13 between the top of the Eutaw Formation and base of the Upper Tuscaloosa  
14 which occurs in the interval between the depths of 4,234 feet and 5,052  
15 feet as depicted by the Dual Induction - Lateralog for the Wall et al No. 3-  
16 9 Well in the South Carlton Field (Permit No. 2182-B), the surface  
17 location of which is 1,885 feet from the South line and 2,472 feet from the  
18 East line of Section 3 of Township 3 North, Range 2 East, Clarke County,  
19 Alabama, and all zones in communication therewith and all productive  
20 extensions thereof, including those strata which can be correlated  
21 therewith. This petition also requests that Rule 3 of the Special Field  
22 Rules be amended to establish forty (40) acre spacing for the Eutaw-Upper  
23 Tuscaloosa Sand Oil Pool.

24  
25 The current Special Field Rules for the South Carlton Field define only the  
26 Pilot-Massive Sand Oil Pool. The Pilot-Massive Sand Oil Pool was  
27 unitized pursuant to Order No. 2005-107 issued by the State Oil and Gas  
28 Board of Alabama. The proposed Eutaw-Upper Tuscaloosa Sand Oil Pool  
29 is separate and distinct from the Pilot-Massive Sand Oil Pool.

30  
31 This petition is filed pursuant to Section 9-17-1, et seq. of the Code of  
32 Alabama (1975) and Rules 400-1, et seq. of the State Oil and Gas Board of  
33 Alabama Administrative Code.

34  
35 The jurisdiction of the State Oil and Gas Board of Alabama is set out in  
36 Section 9-17-1 et seq. of the Code of Alabama (1975). The Board may  
37 take any action it deems appropriate to ensure that the wells are operated  
38 properly and in accordance with Alabama oil and gas laws.

1 23. DOCKET NO. 7-29-08-9

2 Petition by SOUTH CARLTON OPERATING COMPANY, LLC, a  
3 foreign limited liability company, authorized to do and doing business in  
4 the State of Alabama, requesting the State Oil and Gas Board to enter an  
5 order authorizing the recompletion of the Bernice Wall Barbour et al No.  
6 10-1 Well in the South Carlton Field (Permit No. 2165-B) in the Eutaw-  
7 Upper Tuscaloosa Sand Oil Pool, approving the Northeast Quarter of the  
8 Northeast Quarter of Section 10 of Township 3 North, Range 2 East,  
9 Clarke County, Alabama, as the Eutaw-Upper Tuscaloosa Sand Oil Pool  
10 unit for this well. Petitioner is also requesting the Board to approve the  
11 location of the Eutaw-Upper Tuscaloosa Sand Oil Pool as encountered in  
12 the wellbore of said well as an exception to Rule 3(b) of the Special Field  
13 Rules for said field which requires that wells be located at least 330 feet  
14 from every exterior boundary of the drilling unit. This well was  
15 directionally drilled to a total depth of approximately 5,850 feet from a  
16 surface location 566 feet from the South line and 1,903 feet from the East  
17 line of Section 3 of Township 3 North, Range 2 East, Clarke County,  
18 Alabama, to a bottomhole location 457 feet from the North line and 682  
19 feet from the East line of said Section 10. The top of the Eutaw-Upper  
20 Tuscaloosa Sand Oil Pool was encountered in the wellbore of said well at  
21 a location approximately 216 feet from the North line and approximately  
22 760 feet from the East line of said Section 10. This location is  
23 approximately 216 feet from the North line of said unit and, as such, will  
24 be an exception to said Rule 3(b).

25  
26 This petition is filed pursuant to Section 9-17-1, et seq. of the Code of  
27 Alabama (1975) and Rules 400-1, et seq. of the State Oil and Gas Board of  
28 Alabama Administrative Code.

29  
30 The jurisdiction of the State Oil and Gas Board of Alabama is set out in  
31 Section 9-17-1 et seq. of the Code of Alabama (1975). The Board may  
32 take any action it deems appropriate to ensure that the wells are operated  
33 properly and in accordance with Alabama oil and gas laws.

34  
35 24. DOCKET NO. 7-29-08-10

36 Petition by SOUTH CARLTON OPERATING COMPANY, LLC, a  
37 foreign limited liability company, authorized to do and doing business in  
38 the State of Alabama, requesting the State Oil and Gas Board to enter an  
39 order authorizing the recompletion of the Bernice Wall Barbour et al No.  
40 10-2 Well in the South Carlton Field (Permit No. 2166-B) in the Eutaw-  
41 Upper Tuscaloosa Sand Oil Pool, approving the Northwest Quarter of the

1 Northeast Quarter of Section 10 of Township 3 North, Range 2 East,  
2 Clarke County, Alabama, as the Eutaw-Upper Tuscaloosa Sand Oil Pool  
3 unit for this well. Petitioner is also requesting the Board to approve the  
4 location of the Eutaw-Upper Tuscaloosa Sand Oil Pool as encountered in  
5 the wellbore of said well as an exception to Rule 3(b) of the Special Field  
6 Rules for said field which requires that wells be located at least 330 feet  
7 from every exterior boundary of the drilling unit. This well was  
8 directionally drilled to a total depth of approximately 5,703 feet from a  
9 surface location 566 feet from the South line and 1,915 feet from the East  
10 line of Section 3 of Township 3 North, Range 2 East, Clarke County,  
11 Alabama, to a bottomhole location 565 feet from the North line and 2,017  
12 feet from the East line of said Section 10. The top of the Eutaw-Upper  
13 Tuscaloosa Sand Oil Pool was encountered in the wellbore of said well at  
14 a location approximately 212 feet from the North line and approximately  
15 1,907 feet from the East line of said Section 10. This location is  
16 approximately 212 feet from the North line of said unit and, as such, will  
17 be an exception to said Rule 3(b).

18  
19 This petition is filed pursuant to Section 9-17-1, et seq. of the Code of  
20 Alabama (1975) and Rules 400-1, et seq. of the State Oil and Gas Board of  
21 Alabama Administrative Code.

22  
23 The jurisdiction of the State Oil and Gas Board of Alabama is set out in  
24 Section 9-17-1 et seq. of the Code of Alabama (1975). The Board may  
25 take any action it deems appropriate to ensure that the wells are operated  
26 properly and in accordance with Alabama oil and gas laws.

27  
28 25. DOCKET NO. 7-29-08-11

29 Petition by SOUTH CARLTON OPERATING COMPANY, LLC, a  
30 foreign limited liability company, authorized to do and doing business in  
31 the State of Alabama, requesting the State Oil and Gas Board to enter an  
32 order authorizing the recompletion of the Bernice Wall Barbour et al No.  
33 10-3 Well in the South Carlton Field (Permit No. 2152-B) in the Eutaw-  
34 Upper Tuscaloosa Sand Oil Pool, approving the Northeast Quarter of the  
35 Northwest Quarter of Section 10 of Township 3 North, Range 2 East,  
36 Clarke County, Alabama, as the Eutaw-Upper Tuscaloosa Sand Oil Pool  
37 unit for this well. Petitioner is also requesting the Board to approve the  
38 location of the Eutaw-Upper Tuscaloosa Sand Oil Pool as encountered in  
39 the wellbore of said well as an exception to Rule 3(b) of the Special Field  
40 Rules for said field which requires that wells be located at least 330 feet  
41 from every exterior boundary of the drilling unit. This well was

1 directionally drilled to a total depth of approximately 5,848 feet from a  
2 surface location 566 feet from the South line and 1,927 feet from the East  
3 line of Section 3 of Township 3 North, Range 2 East, Clarke County,  
4 Alabama, to a bottomhole location 362 feet from the North line and 2,064  
5 feet from the West line of said Section 10. The top of the Eutaw-Upper  
6 Tuscaloosa Sand Oil Pool was encountered in the wellbore of said well at  
7 a location approximately 262 feet from the North line and approximately  
8 2,878 feet from the East line of said Section 10. This location is  
9 approximately 262 feet from the North line and 237 feet from the East line  
10 of said unit and, as such, will be an exception to said Rule 3(b).

11 This petition is filed pursuant to Section 9-17-1, et seq. of the Code of  
12 Alabama (1975) and Rules 400-1, et seq. of the State Oil and Gas Board of  
13 Alabama Administrative Code.

14  
15 The jurisdiction of the State Oil and Gas Board of Alabama is set out in  
16 Section 9-17-1 et seq. of the Code of Alabama (1975). The Board may  
17 take any action it deems appropriate to ensure that the wells are operated  
18 properly and in accordance with Alabama oil and gas laws.

19  
20 26. DOCKET NO. 7-29-08-12

21 Petition by SOUTH CARLTON OPERATING COMPANY, LLC, a  
22 foreign limited liability company, authorized to do and doing business in  
23 the State of Alabama, requesting the State Oil and Gas Board to enter an  
24 order authorizing the recompletion of the Wall No. 3-14 Well in the South  
25 Carlton Field (Permit No. 2153) in the Eutaw-Upper Tuscaloosa Sand Oil  
26 Pool, approving the following-described land as the Eutaw-Upper  
27 Tuscaloosa Sand Oil Pool unit for this well and approving the location of  
28 the Eutaw-Upper Tuscaloosa Sand Oil Pool as encountered in the wellbore  
29 of said well as an exception to Rule 3(b) of the Special Field Rules for  
30 said field which requires that wells be located at least 330 feet from every  
31 exterior boundary of the drilling unit. The Eutaw-Upper Tuscaloosa Sand  
32 Oil Pool unit for this well is proposed to consist of the following-described  
33 land, to-wit:

34  
35 Commencing at the Southeast corner of said Section 3 of Township 3  
36 North, Range 2 East, Clarke County, Alabama; thence North 89 degrees  
37 45 minutes 16 seconds West along the South line of said Section 3 for  
38 2,643.38 feet to the Point of Beginning: Thence continue North 89  
39 degrees 45 minutes 16 seconds West along the South line of said Section 3  
40 for 1,321.69 feet; thence North 00 degrees 23 minutes 24 seconds East for  
41 1,307.58 feet; thence South 89 degrees 46 minutes 16 seconds East for

1 1,321.69 feet; thence South 00 degrees 23 minutes 24 seconds West for  
2 1,307.97 feet, more or less, to the Point of Beginning, containing 39.68  
3 acres, more or less.  
4

5 This well was directionally drilled to a total depth of approximately 6,070  
6 feet from a surface location 566 feet from the South line and 1,951 feet  
7 from the East line of Section 3 of Township 3 North, Range 2 East, Clarke  
8 County, Alabama, to a bottomhole location 803 feet from the South line  
9 and 1,901 feet from the West line of said Section 3. The top of the Eutaw-  
10 Upper Tuscaloosa Sand Oil Pool was encountered in the wellbore of said  
11 well at a location approximately 619 feet from the South line and  
12 approximately 2,846 feet from the East line of said Section 3. This  
13 location is approximately 206 feet from the East line of said unit and, as  
14 such, will be an exception to said Rule 3(b).  
15

16 This petition is filed pursuant to Section 9-17-1, et seq. of the Code of  
17 Alabama (1975) and Rules 400-1, et seq. of the State Oil and Gas Board of  
18 Alabama Administrative Code.  
19

20 The jurisdiction of the State Oil and Gas Board of Alabama is set out in  
21 Section 9-17-1 et seq. of the Code of Alabama (1975). The Board may  
22 take any action it deems appropriate to ensure that the wells are operated  
23 properly and in accordance with Alabama oil and gas laws.  
24

25 27. DOCKET NO. 7-29-08-13

26 Petition by GEOMET INC., a Delaware corporation, requesting the State  
27 Oil and Gas Board to enter an order approving an exceptional location for  
28 a horizontal well, namely the Brittan 20-06-06 Well, to be drilled from a  
29 surface location 488 feet from the East line of a 160-acre wildcat drilling  
30 unit consisting of the Northwest Quarter of Section 20, Township 12  
31 South, Range 1 East, Blount County, Alabama, said horizontal well to be  
32 at a location no closer than 330 feet from every exterior boundary of said  
33 160-acre wildcat drilling unit, as an exception to Rule 400-1-2-.02(2)(b) of  
34 the State Oil and Gas Board of Alabama Administrative Code which  
35 requires that wells be drilled at least 660 feet from every exterior boundary  
36 of the drilling unit. Petitioner proposes to drill a vertical well into the  
37 Chattanooga Shale, evaluate the formation, and drill horizontally in the  
38 Chattanooga Shale such that the horizontal well will be no closer than 330  
39 feet from every exterior boundary of the drilling unit, and, as such, will be  
40 an exception to said Rule.

1 The petition is filed as a companion to a petition bearing Docket No. 7-29-  
2 08-3 requesting approval of a 160-acre wildcat drilling unit and a petition  
3 bearing Docket No. 7-29-08-2 requesting an exception to Rule 400-1-4-  
4 .09(2)(c) pertaining to the setting and cementing of production casing.  
5

6 28. DOCKET NO. 7-29-08-14

7 Petition by GEOMET, INC., a Delaware corporation, authorized to do and  
8 doing business in the State of Alabama, requesting the State Oil and Gas  
9 Board to enter an order approving an exceptional 320-acre wildcat drilling  
10 unit consisting of the South Half of Section 7, Township 12 South, Range  
11 3 West, Cullman County, Alabama, for the drilling of a horizontal well,  
12 namely the Crawford 07-13-07 Well, as an exception to Rule 400-1-2-  
13 .02(2) of the State Oil and Gas Board of Alabama Administrative Code,  
14 which addresses spacing of wells.  
15

16 This petition is filed as a companion to a petition bearing Docket No. 7-  
17 29-08-15 requesting approval of an exceptional location for the referenced  
18 horizontal well on the proposed 320-acre wildcat drilling unit and a  
19 petition bearing Docket No. 7-29-08-16 requesting approval of an  
20 exception to Rule 400-1-4-.09(2)(c) pertaining to the setting and  
21 cementing of production casing.  
22

23 29. DOCKET NO. 7-29-08-15

24 Petition by GEOMET INC., a Delaware corporation, requesting the State  
25 Oil and Gas Board to enter an order approving an exceptional location for  
26 a horizontal well, namely the Crawford 07-13-07 Well, to be drilled from  
27 a surface location no closer than 330 feet from every exterior boundary of  
28 a 320-acre wildcat drilling unit consisting of the South Half of Section 7,  
29 Township 12 South, Range 3 West, Cullman County, Alabama, said  
30 horizontal well to be at a location no closer than 330 feet from every  
31 exterior boundary of said 320-acre wildcat drilling unit, as an exception to  
32 Rule 400-1-2-.02(2)(c) of the State Oil and Gas Board of Alabama  
33 Administrative Code which requires that wells be drilled at least 660 feet  
34 from every exterior boundary of the drilling unit. Petitioner proposes to  
35 drill a vertical well into the Chattanooga Shale, evaluate the formation,  
36 and drill horizontally in the Chattanooga Shale such that the horizontal  
37 well will be no closer than 330 feet from every exterior boundary of the  
38 drilling unit, and, as such, will be an exception to said Rule.

1 The petition is filed as a companion to a petition bearing Docket No. 7-29-  
2 08-14 requesting approval of a 320-acre wildcat drilling unit and a petition  
3 bearing Docket No. 7-29-08-16 requesting an exception to Rule 400-1-4-  
4 .09(2)(c) pertaining to the setting and cementing of production casing.  
5

6 30. DOCKET NO. 7-29-08-16

7 Petition by GEOMET, INC., a Delaware corporation, authorized to do and  
8 doing business in the State of Alabama, requesting the State Oil and Gas  
9 Board to enter an order approving an exception to Rule 400-1-4-.09(2)(c)  
10 of the State Oil and Gas Board of Alabama Administrative Code  
11 pertaining to the requirements for setting and cementing production casing  
12 for the Crawford 07-13-07 Well to be drilled horizontally on a 320-acre  
13 wildcat drilling unit consisting of the South Half of Section 7, Township  
14 12 South, Range 3 West, Cullman County, Alabama.  
15

16 This petition is filed as a companion to a petition bearing Docket No. 7-  
17 29-08-14 requesting approval of the above-described 320-acre wildcat  
18 drilling unit and a petition bearing Docket No. 7-29-08-15 requesting  
19 approval of an exceptional location for a well to be drilled horizontally on  
20 the proposed 320-acre wildcat drilling unit.  
21

22 31. DOCKET NO. 4-25-06-34

23 Continued MOTION BY THE STATE OIL AND GAS BOARD OF  
24 ALABAMA requesting Operator, Lower 15 Oil Corporation to show  
25 cause why the following abandoned wells located in the Gilbertown Field,  
26 Choctaw County, Alabama, and described hereinbelow should not be  
27 ordered plugged and abandoned in accordance with Rule 400-1-4-.14 of  
28 the State Oil and Gas Board of Alabama Administrative Code relating to  
29 Plugging and Abandonment of Wells and the well sites and associated  
30 tank battery sites restored in accordance with Rule 400-1-4-.16 of the State  
31 Oil and Gas Board of Alabama Administrative Code relating to  
32 Restoration of Location. Additionally, the Frank Gibson #1 Well, Permit  
33 No. 1071, which is described hereinbelow under Plugged and Abandoned  
34 well was plugged and abandoned on August 21, 1997, however the well  
35 site has not been restored in accordance with Rule 400-1-4-.16 of the State  
36 Oil and Gas Board of Alabama Administrative Code relating to  
37 Restoration of Location. Further, the Board is requesting the operator to  
38 show cause why sites, such as well sites, production facility sites, and  
39 Class II injection facility sites should not be ordered to be brought into  
40 compliance with Rule 400-1-4-.10 of the State Oil and Gas Board of  
41 Alabama Administrative Code relating to Site Maintenance.

East Gilberttown Eutaw Unit Wells & Tank Batteries

<u>Permit No.</u>	<u>Well Name</u> (Tank Battery No.)	<u>Location</u> (Tank Battery)
1280	Mattie Clark #1	S1, T10N, R3W
1293 (1293 TB)	C. F. Stewart Heirs #1 (C. F. Stewart Heirs #1)	S1, T10N, R3W
1338	Mattie Clark #3	S1, T10N, R3W
10416 (1343 TB)	Mattie E. Clark #1-6 (Abston Jones 1-6)	S1, T10N, R3W
<u>Other Well</u>		

<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
1431	Joseph W. Hutchinson, Jr. et al #1	S7, T10N, R3W

Plugged and Abandoned well (well site not restored)

<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
1071	Frank Gibson #1	S1, T10N, R3W

32. DOCKET NO. 1-31-07-8A

Continued MOTION FOR REHEARING by LOWER 15 OIL CORPORATION, pursuant to the Alabama Administrative Procedure Act, Section 42-22-1 et seq. of the Code of Alabama (1975) requesting that the Board, upon rehearing, will modify or set aside its order related to its decision entered as Order No. 2007-97 on June 15, 2007, regarding a petition by Lower 15 Oil Corporation. The application for rehearing relates to the petition bearing the docket number set forth hereinabove.

Hearings of the State Oil and Gas Board are public hearings, and members of the public are invited to attend and present their position concerning petitions. Requests to continue or oppose a petition should be received by the Board at least two (2) days prior to the hearing. The public should be aware that a petition may be set for hearing on the first day or second day of the hearing or may be continued to another hearing at a later date. We suggest, therefore, that prior to the hearing, interested parties contact the Board to determine the status of a particular petition. For additional information, you may contact the State Oil and Gas Board, P. O Box 869999, Tuscaloosa, Alabama 35486-6999, Telephone Number 205/349-2852, Fax Number 205/349-2861, or by email at petitions@ogb.state.al.us.

July 31, 2008

1 DR. TEW: The Hearings Reporter has received and compiled proofs of publication of  
2 the items to be heard today. Marvin Rogers, acting as Hearing Officer, heard various items at the  
3 Hearing Officer meeting on July 29, 2008, and at this time Mr. Rogers will make his report to the  
4 Board.

5 MR. ROGERS: Mr. Pearson, I have a written report of the items heard by the Hearing  
6 Officer and the staff on Tuesday, July 29, 2008. Copies of the report are available for members  
7 of the public to review and study. At the Hearing Officer meeting on July 29, 2008, I stated that  
8 Items 31 and 32 which are matters related to Lower 15 Oil Corporation would be heard by the  
9 Board. In my Hearing Officer report I now recommend that Items 31 and 32 be continued.  
10 Further, with respect to Item 12, petition by Shell Offshore, Inc. and Devon Energy Production  
11 Company Limited Partnership, Mr. Jim Griggs has recused himself. Also, with respect to Item  
12 31, Motion by the Board relating to Lower 15 Oil Corporation and Item 32, a Motion for  
13 Rehearing by Lower 15 Oil Corporation, Mr. Pearson has recused himself. I am submitting this  
14 Hearing Officer report to the Board for approval. At this time I would recommend that the  
15 Hearing Officer report be admitted into the record.

16 MR. PEARSON: It is so admitted.

17 (Whereupon, the Hearing Officer report was received in evidence)

18 MR. ROGERS: Mr. Pearson, that brings us to the items set for hearing today. The first  
19 item is Item 8, Docket No. 5-12-08-13, petition by Durango Operating, LLC.

20 MR. PEARSON: Mr. Scogin, you may proceed. Before Mr. Scogin and the petitioner  
21 proceed is there anyone else in attendance today who wants to have comments in regard to these  
22 petitions? Hearing no voice from the audience, Mr. Scogin you may proceed.

23 MR. SCOGIN: Mr. Pearson, my name is Mark Scogin representing Durango Operating,  
24 LLC. We have four petitions today all dealing with temporarily abandoned status of certain  
25 wells in four different fields. Some of the testimony that we are going to present is overlapping  
26 testimony and thus I would request that those four petitions which would be Docket Nos. 5-12-  
27 08-13, 14, 15 and 16 be consolidated for hearing purposes.

28 MR. PEARSON: They are so consolidated.

July 31, 2008

1 MR. SCOGIN: We have prefiled an affidavit in support of each petition. If the staff or the  
2 Board would like additional copies I have those here. You may have those before you already.

3 MR. PEARSON: What's the nature of the affidavit?

4 MR. SCOGIN: The affidavit is a standard affidavit in support of the petition stating why  
5 we believe these wells have future utility. We have of course additional testimony and some  
6 additional exhibits to be handed up that were not prefiled.

7 MR. PEARSON: Do you offer your affidavits to be admitted?

8 MR. SCOGIN: Yes sir.

9 MR. PEARSON: The affidavits will be admitted.

10 (Whereupon, the affidavits were received in evidence)

11 MR. SCOGIN: I have one witness to be sworn.

12 MR. ROGERS: Will you stand and state your name and address?

13 MR. HERLIHY: John Herlihy, Jackson, Mississippi.

14 (Witness was sworn by Mr. Rogers)

15 MR. SCOGIN: State your name please.

16 MR. HERLIHY: John Herlihy.

17 MR. SCOGIN: Mr. Herlihy, have you previously testified before the State of Alabama Oil  
18 and Gas Board?

19 MR. HERLIHY: Yes I have.

20 MR. SCOGIN: In what capacity?

21 MR. HERLIHY: As a petroleum engineer.

22 MR. SCOGIN: Do you have an affidavit of your qualifications on file with the State Oil  
23 and Gas Board?

24 MR. HERLIHY: Yes I do.

25 MR. SCOGIN: I would ask that Mr. Herlihy be recognized as an expert petroleum  
26 engineer.

27 MR. PEARSON: He is so recognized.



July 31, 2008

1 was losing money. The same for Foshee and West Foshee, I bought those in 2000. I  
2 bought each of the fields, all of the production, for salvage, basically the cost of the  
3 equipment, the value of the equipment, less the plugging cost. They were bleeding  
4 money. In each of the fields the primary problem with them was salt water disposal.  
5 They didn't have enough capacity. They had problems with their wells. One lease that I  
6 bought had holes in the casing. They had shut it down. They had 90 days on their lease  
7 and I bought it with about 15 days to go. Each field is in the Tuscaloosa formation, Pilot  
8 and Massive sands. A good well for me makes ten barrels of oil and 2,000 barrels of salt  
9 water. That's a good well. When I bought the fields in many cases they had very little  
10 useful equipment. All the pumping units and tanks were usually good but the pipelines,  
11 all the infrastructure was in bad shape. All the downhole equipment was in bad shape.

12 Q. Essentially, as an operator of these fields what is your goal as far as operating them?

13 A. Well the goal is to make money, primarily. I'll admit that. Secondary goal though is to  
14 make as much oil as I can. I have to admit it is somewhat of an obsession.

15 Q. Is there a particular way that this has to be done with these fields in order to make it  
16 economic?

17 A. The first thing I have to do is get the salt water system right. Each well makes roughly  
18 2,000 barrels of salt water. A good well makes ten. That's half of one percent oil. If I  
19 opened the valve in a five gallon bucket you would say, where is the oil? What are you  
20 doing? Some of these fields had decent disposal wells. I had to change up tanks, treating  
21 facilities, everything to get the disposal system in shape. The second thing I do is go in  
22 and change pumping units, downhole pumps. I get everything as efficient as it can be. I  
23 use rod pumps. I bought fields that had downhole electric submersible pumps. I bought  
24 fields that had hydraulic pumps on them, incredibly inefficient. I change that out, buy  
25 new equipment, not always new, but buy good equipment and refit everything. A lot of  
26 times I don't put everything back on right away. I put a well or two on. I try to figure  
27 out how they will produce and what kind of decline curves I will have before I start  
28 spending money buying pumping units and buying rods and tubing for another well. It's

July 31, 2008

1 kind of a measured paced process where I am trying to learn and understand the field that  
2 I bought.

3 Q. Are there economic considerations with respect to outfitting the well versus waiting for  
4 appropriate salt water disposal capacity, the economics that go into this equation?

5 A. Well, I have been in business myself for 21 years and I think I have only converted one  
6 disposal well and I regret that. I try to utilize existing disposal capacity. I get my  
7 disposal wells as efficient as they will be to take as much water as they will take and I put  
8 wells back on up to the point that I have disposal capacity. In Pollard and Osaka I have  
9 been fortunate enough to have the disposal capacity to handle the wells that I have put  
10 back on over time. Sometimes I get a disposal well when I buy the production.

11 Q. Does it make any economic sense to convert a well that is temporarily abandoned into a  
12 disposal well and put other wells on line? Do you have exhibits that you have prepared?

13 A. Yes I do.

14 MR. SCOGIN: I'd like to hand up some exhibits that he has prepared.

15 Q. Mr. Herlihy if you will, go through the exhibits.

16 A. Exhibit I is a base map of West Foshee Field.

17 Q. That would be the fourth petition that you filed?

18 A. Yes, Docket No. 5-12-08-16. I will refer back to this map when I use the other exhibits.  
19 There is a fault that runs on the south side of the field and the production is right along  
20 the fault line. As you can see it is strung out from one end to the other. West Foshee has  
21 one salt water disposal well, the 5396-A, that came with the field. When I started in West  
22 Foshee every well with the exception of one, the ATIC 34-12 No. 1, was shut down.  
23 Two or three were producing and had failures between the time I made the deal and  
24 between the time I closed the deal. I ended up with just one producing well when I put  
25 the field on. I slowly studied the records after I got it on and started making some  
26 money. I put the 33-4 on in late 2002. Even before that if you will look to the far left to  
27 the ATIC Scott 32-2 No. 1, after I had done a study of that one I realized that it would not

July 31, 2008

1 be able to produce quantities of oil at the time to justify keeping it as a temporarily  
2 abandoned well.

3 Q. So when you bought the field only one well was producing at the time?

4 A. Yes.

5 Q. Since that time you have been able to add production?

6 A. Yes. I have slowly added. Right now I have four wells producing in West Foshee Field.

7 Q. Do you have other exhibits?

8 A. Before I get into that I would like to kind of explain the economics of how I operate.

9 When I am looking at a field or looking at a well what I'm after is determining what my  
10 economic limit is. The economic limit is the operating cost divided by the cost of a barrel  
11 of oil. Back in 1999 I was getting \$8.45 a barrel in Pollard. I was operating for \$1,300 a  
12 month. My operating limit was 187 barrels a month, six barrels a day. Fast forward to  
13 2008, last month our posting price was \$135.00 a barrel. I operate for \$4,000 a month  
14 down there, mainly now because of the cost of energy. I have to buy electricity for  
15 electric motors. I have gone from \$400 or \$500 a month to almost \$2,000 a month for  
16 electricity. My economic limit has gone to 30 barrels a month, one barrel a day. So, I  
17 evaluate wells. I evaluated a well that I plugged back in 2001 valued on \$16 or \$17 oil.  
18 My economic limit might be four or five barrels a day. I don't think that well can make  
19 but two or three. So, I plug it. I go through and pick my best wells. If you look at the  
20 base map you can see that I plugged a well actually before I put my second well back on.  
21 I slowly brought the production in West Foshee to where I had no more disposal capacity.  
22 It came up to four wells. The disposal well, I handle about 7,000 to 8,000 barrels of  
23 water a day on a vacuum. That's my maximum capacity. I have kind of marched  
24 through methodologically. I actually took one of the wells that--I'm asking to hold as  
25 future utility as a disposal well the 33-8. The 33-8 is located adjacent to the central  
26 treating facility. I was concerned that if I ever had a problem with my one and only  
27 disposal well in West Foshee that I would have to recomplete and the best well to  
28 recomplete obviously would be the 33-8 if it is right there. I didn't want to have to

July 31, 2008

1 convert it without testing it and seeing how much oil it would make. The 33-8 well,  
2 Permit No. 5359, is the third well from the right on the base map. I don't put the date  
3 that I put it back on production. I only produced it for about four months and probably  
4 lost money on it. I thought it would be a better well. It turned out it wasn't a better well  
5 but I moved equipment to it and produced it. It produced down to its economic limit. I  
6 shut it down and moved the pumping unit from that well over to the ATIC Container 33-6  
7 and started working on it and getting it going. I'm so fanatic about making every last  
8 barrel of oil that I tested that well and produced it before I brought it into a category  
9 where it was going to be held as future utility as a disposal well.

10 Q. You have an exhibit which deals with comparing the cost to convert a well versus  
11 refitting a well.

12 A. Yes. If you look at Exhibit 2 one of the arguments that I thought there might be is you  
13 have two wells that are potential producers and you have one well that you are asking to  
14 hold as a disposal well, so why not just convert the disposal well and equip the two  
15 producers and start pumping. I mean, you have \$135.00 a barrel oil. Certainly that has  
16 got to be economical. I called last week and got a price on a pumping unit. I have used  
17 some of the numbers that I got from vendors to generate estimated costs of refitting a  
18 producing well. That comes to \$243,000. The same cost for converting and fitting out a  
19 disposal well is \$268,000. For the purposes of analysis what I did is share the cost of the  
20 disposal well. I took half of the \$268,000 and applied it to each well and worked off an  
21 assumption that it would be a \$377,000 investment per well to put them back on. If you  
22 look now at Exhibit 3 it is pretty standard. It's a decline curve analysis. The inputs from  
23 there are marked in red. I start with a price per barrel. I start with my operating costs and  
24 start-up costs which have to be paid out. Another important number is decline, the  
25 decline that the well exhibited before it was shut down. In West Foshee I've got a pretty  
26 tough royalty burden. I've got a 30 percent royalty burden which affects it greatly.  
27 Finally I put in the anticipated starting production. I take it each month at a time and  
28 decline it out and see what profit I'll make each month and how that will go toward

July 31, 2008

1 paying out the investment here of \$377,000. Exhibit 4 is the decline curve for this well,  
2 the ATIC Container 33-3 No. 1, a pretty tough decline. If you look back on the decline  
3 curve there were a few flat spots. There is a possibility that this well could level out at  
4 200 barrels a month, so I consider it a candidate to put back on. It finished with 80  
5 barrels a month and it probably wasn't a full month. I consider this a candidate to put  
6 back on primarily because it was still in the 250 range when it was shut down at 250  
7 barrels a month. Remember that my operating economic limit is 30 barrels a month, 30  
8 barrels a month with everything paid for. If you look back at Exhibit 3 you can see my  
9 \$377,000 investment doesn't get paid out if I stay on a 50 percent decline. Within less  
10 than two years the well starts losing money, 21 months, and I lose \$136,000 on it.

11 Q. Basically from an economic standpoint the only way to continue producing that particular  
12 field is the way you have been doing it in the past with respect to balancing the disposal  
13 capacity with production.

14 A. Correct. On Exhibit 2, I brought over the cost that I would incur if I just utilized existing  
15 equipment. It's probably a high number but rig costs have gone through the roof. I  
16 started off with a \$15,000 rig cost and got a bill the other day and thought about it and  
17 increased it to \$25,000. What I have been doing in West Foshee since I reached disposal  
18 capacity is I produced a well to its economic limit. The last one that I produced to its  
19 economic limit was the Powell. The Powell is the second well from the left on the base  
20 map. I don't know how long it produced, maybe two or three years, and I plugged it  
21 back, actually finished the plugging in January but we started the plugging in late  
22 November when the economics were considerably different at \$70 or \$80 a barrel.

23 Q. Does Exhibit 7 show the economics with respect to how you have been handling the field  
24 to this point?

25 A. Exhibit 7 is the same well that we were talking about before, the 33-3 No. 1. One  
26 hundred twenty dollars a barrel, \$4,000 a month operating, the same 50 percent decline,  
27 and instead of \$377,000 I have plugged in \$37,000 for the cost of just moving the  
28 equipment, the rig, and the labor to construct everything. In this particular example, the



July 31, 2008

1 Q. And then the 33-8 well, you are describing the future utility to be as a potential salt water  
2 disposal well?

3 A. Yes.

4 MR. PEARSON: Thank you. You may move on.

5 DIRECT EXAMINATION

6 Questions by Mr. Scogin:

7 Q. Two of the petitions again just have a single well that you have requested for salt water  
8 disposal in the past and you feel that those wells have future utility in that capacity?

9 A. Yes I do. It kind of all ties back in with the fact that without a good disposal well,  
10 without a disposal well, I have to shut things down. The production is so thin that I can't  
11 afford to drill a disposal well so what I would have to do is take my worst producer and  
12 I've got some pretty bad producers but take my worst producer and convert it to a salt  
13 water disposal well. In my opinion to do that would be wasteful. I wouldn't be  
14 producing that oil. It's not much. I've got wells that make three barrels a day and they  
15 are still profitable. If I can make a profit on them, if they've got a good decline, if the  
16 risks are minimal, I've got good facilities, got good pipelines, I will produce them down  
17 to the moment that I'm losing money. I have to have a back up salt water disposal well.  
18 I've got to have something if I lose my disposal well. I've not lost a disposal well in all  
19 the years that I have produced. To me it's kind of like a spare tire in your car. It would  
20 be foolish to leave it out everyday if you had it, leave it in the garage and drive around.  
21 It's essential.

22 Q. If you lose a salt water disposal well in those fields you need backup and if you don't  
23 have that backup basically the field shuts down.

24 A. You shut it down until you convert something. If you had to drill there is no telling how  
25 long it would take to get a drilling rig but I would economically have to convert  
26 something, yes.

27 Q. Let me go back to the first petition with respect to the Foshee Field. There are four wells  
28 that have been requested to be temporarily abandoned. Are the economics with respect to

July 31, 2008

1 those four wells essentially the same or analogous to what you have been testifying to  
2 through your exhibits that we have handed up today?

3 A. Yes they are. I've got four wells that have marginal values as an oil well but the only  
4 value they have is if I move equipment and utilize existing equipment. Foshee is a little  
5 different in that the declines in Foshee have turned out better. Wells have lasted longer.  
6 I haven't had the occasion to plug a well there, haven't had a well reach its economic  
7 limit and had the ability to move that equipment to another well, so I didn't really use that  
8 as an example.

9 Q. Economically you would like those four wells to continue to be temporarily abandoned  
10 with the intention of producing those wells?

11 A. Yes.

12 Q. Are any of the wells that you are requesting today to be temporarily abandoned, do they  
13 have any danger to the environment?

14 A. In my opinion they don't. One interesting thing is that when I put a well back on before I  
15 run the pump, set the pumping units and spend all the money, the very first thing we do is  
16 run a packer in as close to the perforations as we can safely get it and test the casing to  
17 1,000 pounds. Every well that I put back on, the casing is tested. Some of the wells were  
18 shut in 15 or 20 years ago. I haven't had any evidence and I haven't seen anything as an  
19 operator that would make me feel like there is a threat there.

20 Q. In your opinion all the wells that you have requested to be temporarily abandoned do  
21 have future utility?

22 A. Yes sir.

23 Q. Do you have any summary comments on these four fields and these wells for which you  
24 are requesting temporarily abandoned status?

25 A. Yes I do. Quite honestly, over the years I have felt that there has been a little bit of  
26 pressure to abandon wells, to plug them and I have succumbed to that pressure. If you  
27 look on the West Foshee base map, I plugged the ATIC Scott before I even put a second  
28 well on in West Foshee. I didn't think it had that much value. I was getting \$16.00 a

July 31, 2008

1 barrel and my economic limit was probably five barrels a day. It just didn't make the  
2 grade. Now my economic limit is one barrel a day. I kind of wish I had that one back. I  
3 feel that temporarily abandoned wells are an asset. I don't think they are a threat. They  
4 may be a threat economically to the state because with a deadbeat operator that walks  
5 away from them the state gets stuck with the plugging costs. I understand that but in the  
6 right hands they are an asset. I regret plugging wells that I have plugged. I regret  
7 converting a well in Pollard to a saltwater disposal well. It had mechanical problems but  
8 I would love to have that wellbore back. I think it is wasteful to prematurely plug a well.  
9 I wish there was some way that the Board could figure out a way to adequately bond  
10 these wells so they didn't feel threatened by the deadbeat operator that would walk away  
11 from them. I think the hearing process in coming up here, at least an attorney, and  
12 showing that there is a representative and that you do want the wells, I think that is very  
13 valid. I don't have any problem with that but I wish I had most of them back. I never  
14 envisioned \$120 a barrel oil. I didn't envision \$75 oil. What I do is not rocket science. I  
15 can't imagine what I could do with South Carlton Field. I wouldn't want Citronelle but,  
16 you know, some of the old fields in Alabama. I can't imagine what I could do with some  
17 of the wellbores that are plugged especially when I pull casing. It's okay to buy new  
18 equipment. You have to get started somewhere but just the plugging process of pulling  
19 casing, in my opinion, and if you really want it plugged there is a way to plug it and not  
20 shoot holes into the base of the fresh water. I guess we are stuck with that because of the  
21 EPA but if there is any way to maintain the integrity of a wellbore when it was plugged if  
22 we are at \$500 oil, that wellbore may have value. The cost of drilling and the cost of  
23 operating, everything goes up so you can't go back and drill for five barrels a day. You  
24 can hardly drill for ten barrels a day. I guess that is my overall comment on the process  
25 here. I wish y'all could bond. I think it is a financial thing for y'all. I would hope that  
26 you would agree that it is not a threat to the environment. I've worked from Texas to  
27 Alabama and the zones here are normal pressure except the very deep ones. The  
28 Tuscaloosa is normal pressure. The fresh water sands are actually artesian in some places

July 31, 2008

1 where a fresh water sand has a better chance of invading an oil zone than the reverse. I  
2 don't think there is a threat on the outside of the wellbore. I don't think there is a threat  
3 on the inside of the wellbore from fluid movement from salt water to a fresh water  
4 aquifer. I think that if wells are monitored every year or even every six months or  
5 whatever it takes to make sure no pressure is building up, there's not going to be a blow  
6 out, a little oil on the ground, I think they are an asset.

7 Q. You are confident, in other words, none of these particular wells have environmental  
8 issues?

9 A. I'm absolutely confident of that.

10 Q. Are you familiar with the term waste as that term is defined by the State of Alabama and  
11 its Code and Regulations?

12 A. Yes sir I am.

13 Q. Is it your opinion that the extension of the temporarily abandoned status of these wells in  
14 these four petitions are necessary in order to provide for the orderly development of these  
15 four fields and to promote the conservation of natural resources?

16 A. Yes sir.

17 Q. In your opinion would the granting of these petitions filed by Durango Operating prevent  
18 waste and protect the coequal and correlative rights of all affected mineral interest  
19 owners?

20 A. Yes.

21 MR. SCOGIN: I would tender the witness for any questions by the Board or staff.

22 MR. PEARSON: Mr. Scogin, you were offering Exhibits 1 through 8?

23 MR. SCOGIN: Yes.

24 MR. PEARSON: Those exhibits are admitted.

25 (Whereupon, the exhibits were received in evidence)

26 MR. PEARSON: Dr. Tew, does the staff have any questions?

27 DR. TEW: I have a couple of questions and a comment.

July 31, 2008

JOHN HERLIHY

EXAMINATION BY BOARD/STAFF

Questions by Dr. Tew:

1  
2  
3  
4 Q. Mr. Herlihy, relative to the Foshee Field where you have all of the field wells that you are  
5 here for today, I think you state that your intention there would be to return those to  
6 productive status?

7 A. Yes sir.

8 Q. In the case of that field do you have a backup for saltwater disposal?

9 A. No I don't.

10 Q. Do you have a plan there if you were to lose your disposal well?

11 A. I've got two wells that are producing near the central tank battery and that would be my  
12 first choice. If I had a problem and I lost my disposal well I would look to one of the four  
13 producers to see which one was the poorest candidate for a producer and make a decision  
14 at that point as to which way to go, either to convert that well or to look at one of the  
15 producers. More than likely it would be converting one of the four wells that I am asking  
16 to be held as a future producer.

17 DR. TEW: As a comment, I would like to say that we certainly appreciate the things that  
18 you said relative to future utility of some of these wellbores. I think you also understand that the  
19 staff and the Board has to weigh out these things and find a balance. One thing that we are really  
20 keying on is understanding the true future utility of these wellbores and how they can be used  
21 and somewhat of a time plan or a timetable of how these things might come into utility as they  
22 sit in a temporarily abandoned status. Also, the surety is an issue for us. We have a very good  
23 record with orphan wells in the State of Alabama and we want to make sure that we maintain that  
24 record and we don't end up with orphan wells out there that don't have a responsible party to  
25 take care of the ultimate plugging and abandonment.

26 MR. PEARSON: Any further questions?

July 31, 2008

Questions by Mr. Raymond:

1 Q. Mr. Herlihy, you talked about the environment. I would like to ask you a little something  
2 more specific, if I could. Are the downhole constructions of the wells that are on your  
3 petitions adequate in their current state to protect ground water and hydrocarbon  
4 resources?  
5

6 A. Yes they are.

7 Q. Are there any safety issues with leaving these wells in their current state?

8 A. No.

9 MR. RAYMOND: Thank you.

10 MR. PEARSON: Any further questions?

Questions by Mr. McQuillan:

11 Q. Mr. Herlihy, in Foshee Field you have two saltwater disposal wells at this time?  
12

13 A. Yes.

14 Q. In a previous correspondence you stated that one takes the majority?  
15

16 A. That's correct.

17 Q. So in effect you are not using one to its fullest?  
18

19 A. The second one is completed in the Wilcox. The first one, the primary well, is completed  
20 in the Eutaw or Upper Tuscaloosa. The Wilcox is not a good injection formation. I  
21 inherited it. I usually put water that I swab out of wells, water that I would not otherwise  
22 put in my primary saltwater disposal system, in that well. I put a small slip stream from  
23 the water I produce but it takes very little.

24 Q. So you are saying that the quality of that formation limits your saltwater disposal?  
25

26 A. Yes.

27 Q. Also, in January you plugged and abandoned the 34-6 No. 1.  
28

A. The 34-6 No. 1, I wish I had stretched the base map on. The 34-6 No. 1 is almost due  
north of the far eastern well in West Foshee. The way that I designed the system is it has  
to be a closed system. When water comes in through the treater it is under pressure. The  
traditional system or the way that the former operator was doing it, they were putting it in

July 31, 2008

1 a tank. They had a level switch on the tank and when the tank got to a certain level the  
2 triplex pump would kick in and the triplex pump would send water a mile and a half  
3 away through a 2-inch plastic line, 2-inch fiberglass line, to this well. They could utilize  
4 it in that fashion. One of the secrets that I do is I don't expose the saltwater to air. As  
5 that tank cools down it pulls air, well, oxygen into the tank. There is so little gas that is  
6 produced out there that I could hardly even keep a gas blanket on. Even if I thought I  
7 could when it comes down it pulls air in, oxygen, and forms iron oxide in the water  
8 which is as good as putting drilling mud in the well. I redo the wells so I am using vessel  
9 pressure to get the saltwater to the disposal well. I mentioned the word risk before, when  
10 I have a 2-mile saltwater pipeline through the woods that I have a hard time putting an  
11 eye on; I consider the risk of that greater than the value I'm getting out of that well. I  
12 don't know what I was getting in it but not enough to put another well on. I hardly lost  
13 any disposal capacity when I plugged that well. Truthfully, it was showing good faith to  
14 the Board that I wasn't really using it. It was not a producer. That well was a dry hole  
15 essentially and it was converted to a disposal well. It had zero value as an oil well. I felt  
16 the best thing to do was plug it.

17 Q. From your testimony of wells in West Foshee in your exhibits here, I take it then that you  
18 really can't come up with a timetable essentially when you might put some of these wells  
19 on production. It's limited in other words by economics. Have you done any study on  
20 what kind of price per barrel you need to activate these wells?

21 A. Well, I ran a few decline curves of the other wells just for my own benefit, looking at  
22 them. The 34-12 No. 1, the well that was on from the beginning, has a good flat decline  
23 curve. It is going to last for a long time. A couple of others had a greater decline curve  
24 but they are not approaching an economic limit, not at 30 barrels a month. I put one well  
25 back on after I plugged the Powell. The 33-9 has been producing for about four months,  
26 not enough really to generate a decline curve. I'm moving to my poor candidates. I  
27 picked out the best wells first to put back on. The Powell was a better well than the 33-9.  
28 The 33-9 will be the next well to be plugged and abandoned in West Foshee because it

July 31, 2008

1 was farther down the totem pole in my opinion in value, so it will go first. Two or three  
2 or four months are not enough time for me to predict how long it would be. The price of  
3 oil is the wildcard. If I had to guess, two or three years. I put the Powell well on in 2005.  
4 It might have been before that. It didn't last very long, maybe five years at the most.

5 Q. What about in Foshee?

6 A. Foshee, I would have to look at the decline curves. All the wells there are pretty decent.  
7 They've got fairly flat declines. They are crummy wells but they've got flat declines. It  
8 could be a while. That oil might be that much more valuable when I get to them.

9 MR. PEARSON: Anything further?

10 Questions by Mr. Pearson:

11 Q. Mr. Herlihy, you mentioned in your testimony in a general way that when you acquired  
12 this field you tested the casings by setting packers?

13 A. Well, if a well is shut down I test it right before I put it back on. If it is producing I don't  
14 bother to test it.

15 Q. I'm particularly interested in the wells that you are asking for the continuation of the TA  
16 status. Have any of these wells been tested in that manner?

17 A. No they haven't.

18 Q. From hearing your responses just recently and looking at your Exhibit 1, it appears that  
19 you have plugged and abandoned at least a couple of wells recently, the first part of this  
20 year. Is that correct?

21 A. Yes, that's correct.

22 Q. Can you off the top of your head tell me what the general plugging cost was?

23 A. I'm going to shoot from the hip and say at least \$50,000. I do it cheaper than anybody  
24 does.

25 MR. PEARSON: I'm sure I speak for all the staff here. There is a great deal of respect  
26 for the manner in which you conduct your operations and listening to you here today describe  
27 your business profile. We certainly are encouraging of that as a Board. What I am going to do is  
28 end up making a recommendation to the full Board. We are going to take a recess in a minute to

July 31, 2008

1 talk about this but you are correct in identifying two of the important policy concerns of the  
2 Board with respect to the TA status policy that has existed in the past. The bonding issue is a  
3 very significant issue to us. The monitoring during a time period of temporarily abandoned  
4 status with encouragement toward implementation of whatever the future utility is. These are all  
5 concerns that we are basically discussing and addressing now, so your petition is timely. You  
6 have certainly identified two of the main ones in the funding and the monitoring issue. I would  
7 suggest that we take a short recess.

8 (The hearing was recessed for 15 minutes)

9 MR. PEARSON: Let the record reflect that we are back in session after the recess. Mr.  
10 Scogin and Mr. Herlihy, the way the Hearing Officer process works is I am going to do a  
11 Hearing Officer report and make a recommendation for the Board's full consideration. In this  
12 particular case my recommendation is and what we are going to do is continue these items. The  
13 temporarily abandoned status of each of the wells you are requesting is going to remain in effect.  
14 Status quo will be the same. They will continue to be classified as temporarily abandoned for the  
15 time being until the Board can adjust this. At the next hearing of the Board it is not necessary for  
16 you to come back and make a full presentation. During the pendency of that time we would ask  
17 that you submit the actual cost numbers that you experienced on the couple of wells that you  
18 testified that you plugged and the Board and the staff will be considering the issues that you have  
19 raised. I want to thank you for your presentation today. It was very thought provoking and well  
20 done. We are going to continue this matter to the full Board. Anything further by the staff, Dr.  
21 Tew?

22 DR. TEW: No sir.

23 MR. SCOGIN: Mr. Herlihy would like to make a comment.

24 MR. HERLIHY: You asked me a question about whether I had tested them with packers.  
25 Mark and I were talking during the recess about how valuable that might or might not be.  
26 Truthfully for me if the Board said, you have these wells temporarily abandoned but we want  
27 them all tested with packers. I would have to go out and buy a string of tubing, 5,000 feet of  
28 tubing, at what, \$10.00 a foot. I would have \$50,000 in that and I could distribute that amongst

July 31, 2008

1 however many wells. The rig cost, I'm looking at \$30,000 to test, probably. If I'm looking at  
2 \$30,000 to test and I'm looking at \$50,000 to plug, it is a question mark whether I'm really going  
3 to make any money out of those wells even at \$120 a barrel. I might plug some of those wells,  
4 with the aggravation of having to do it. It's certain to test every five years and if it's a one time  
5 test that is one consideration, but if it's some test on some type of time basis it would change the  
6 economics for me and I think it would change the economics for a lot of operators. If you want  
7 wells plugged then that is a good way to get wells plugged. I just wanted to make that comment.  
8 I believe that would create waste. I really do.

9 MR. PEARSON: Mr. Herlihy I appreciate that. It was not going to be part of my  
10 recommendation to the full Board that the testing be done at this time. Certainly that's an issue  
11 but we have heard your testimony on it and I understand fully the context of the economics of the  
12 field and the profile that you are following. That was not going to be part of my  
13 recommendation. Anything further? That having been said, the Board is now adjourned.

14 (Whereupon, the hearing was adjourned at 11:04 a.m.)

July 31, 2008

REPORTER'S CERTIFICATE

1  
2  
3  
4 STATE OF ALABAMA

5 COUNTY OF TUSCALOOSA  
6

7 I, Rickey Estes, Hearing Reporter in and for the State of Alabama, do hereby certify that  
8 on Thursday, July 31, 2008, in the Board Room of the State Oil and Gas Board Building,  
9 University of Alabama Campus, Tuscaloosa, Alabama, I reported the proceedings before a  
10 Hearing Officer in Regular Session; that the foregoing 39 typewritten pages contain a true and  
11 accurate verbatim transcription of said proceedings to the best of my ability, skill, knowledge,  
12 and belief.

13 I further certify that I am neither kin or counsel to the parties to said cause, nor in any  
14 manner interested in the results thereof.

15  
16   
17 Rickey Estes  
Hearing Reporter